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**A presentation of the French “économie des conventions”. Application to labour issues**  
*- Paper delivered for the ESRC-Centre for Business Research, University of Cambridge -*

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The “economics of conventions” is a collective and multisided program of research in economics (with cognate developments in other social sciences) which is going on in France since more than ten years. The two seminal collective books (in French) are: Robert Salais and Laurent Thévenot, eds., 1986, *Le travail. Marchés, règles, conventions*, Paris, Economica; and the special issue “L'économie des conventions” of the *Revue économique*, March 1989, vol. 40 (2) with Jean-Pierre Dupuy, François Eymard-Duvernay, Olivier Favereau, André Orléan, Robert Salais and Laurent Thévenot. Of course there has been many more recent developments (mostly in French; see the short list of Anglo-Saxon references at the end of the paper). The economics of convention now begins to be internationally known. I must say that there are some (in my view prejudicial) confusions. Our program of research has almost nothing to share with evolutionary games that some people like Peyton try to label as “economics of convention” in the Anglo-Saxon literature. Primacy must be acknowledged to the French school.

## **I. General comments**

In the modern era of diversity, flexibility, innovation, autonomy, and globalisation, our group of researchers was aware that well-established methodologies and political postures will no longer work. The imperialist conception of the market extending its sphere of domination over all the aspects of economic and social life was not acceptable, nor the only consideration of macro phenomena. And to denounce and to criticise the market is not doing something new, because it is only the negative of the same thing. Thus the route we decided to explore (and it will take time, years and need many people to make research; success is not guaranteed) is to build up positive constructions, new in some respects (though other trials are of course engaged). There four central positive assumptions (in disorder):

1. There exists a plurality of forms of coordination, of products, of type of works, of principles of public action, of ways for constructing justice and the common goods. It is not simply an empirical diversity; it implies diverse types of generality; that people could share and know (by experience or by theory). The market is only an element among a set of possible forms of coordination. To positively build up a plurality of forms of coordination allows to criticise market ideology, not from an external point of view, but from an other ideal-type of the same importance. If one's refers to the well-known opposition between market and organisation, it means that, like the various forms of organisation, the market is not existing per se; it is constructed by conventions, notably the standards which define for the products the quality on which producers and users tacitly or explicitly agreed. There are different possible ways to be both efficient and fair.
2. As modern economies involve a pervasive and widespread uncertainty, to be achieved individual action needs a common framework with others. But not, strictly speaking, an ex ante and predefined framework imposed to everybody by a set of global institutions. Something more sophisticated is required: each individual action, when undertaken and by this undertaking, presupposes some definite common framework shared with others. She presupposes a world, common with other people engaged in the same coordination. That is the core of the conventions that are supposed to apply to the situation at stake. Generally this is a little world (a workshop, the brief moment of some instantaneous exchange on the

market), not too difficult to grasp with. The scope of that world and the way it is designed depends on the nature of the searched outcome and of the problems or conflicts that will be met. Probably this needs institutions to support the process, but of a kind different from the standard one (I will briefly come back to this point at the end).

3. The main focus is not on institutions that regulate, but on the ways individual actions are coordinated and mutually expected. This derives from the concept of convention. For instance in a work coordination inside a firm, conventions are things, outcomes, rules of behaviour that other people are expecting you will do or follow. They judge your action, its relevance or irrelevance by reference to these conventions. The same could be said for coordination and competition between firms: they conform to some expected standards or customs, expected because past experience proved that they are workable. If there is no definite reason to think that things could go differently (as Keynes himself emphasised in his famous chapter 12 from the General Theory), everybody or every firm will continue to observe and to assess others' actions through these conventions. Because doing differently is costly and risky and, in most circumstances, unnecessary. One's must have good reasons to do differently and to put new claims, i.e. general and legitimate reasons with which it is difficult for everybody to disagree. Thus, what is antecedent is not institutions, but the conventions which in daily affairs help people coordinating in a right way.

Note that the same arguments were more or less developed by Piore and Doeringer in their works on labour market segmentation. They argued that, for the groups of skilled workers in large capitalist industries, the rules of work were, above all, customs, habits supposed to be known by others and that these "conventions" (so to speak) were used as tests of identity among workers. In many respects, official rules developed as an institutionalisation of professional customs, with the implicit agreement of workers. This is close to our arguments.

4. Equally due to radical uncertainty, people cannot undertake the complex strategic computation that standard economics assumes to be rational. More than that, standard rationality would be inefficient. For people it is more efficient to be pragmatic. Thus our assumption of rationality is the following one. People know first that they are not omniscient and, secondly, that to achieve their goals they must take in consideration other people and collective goals and values. There is some parallel with Rawls's position who

emphasises that, to act efficiently, people have to manifest to others that their actions refer to some acceptable general principle of justice. Our theoretical assumption is that people are reasonable, more than rational. It has of course to be tested by empirical works. We shall suggest below that more than a strategic process, the process of work (that is the coordination between people at work) can be understood as a pragmatic process (filled up with mutual adjustments and also adjustments to rules and to the machinery, all these adjustments having to cope with unpredictable circumstances). The interest of this assumption is that you could study how pragmatic processes eventually degenerate into strategic market processes. The opposite is not true.

## **II. Application to labour economics**

All of this nicely applies to work, due to its very specific nature made with singularity, time, creation of new realities, pervasive uncertainty, and so on.

1. To elaborate a little bit more, one's must start from the double failure of market theories when they tried to cope with work. The first time they meet, what is exchanged between a worker and an employer? Standard theories tell us that they exchange a commodity, whose name is "work". Heterodox theories, namely the radical and marxist ones, tell us that they market "labour power": as a horse-power machine, the worker is supposed to sell the disposal of his power to the employer. Our assessment is that the debates between these two positions are endless and unfruitful and that an other conception must be built.

What are the failures?

Marx in his Capital offered a definite criticism of the first position, that there exists a market for "work". It was my point of departure in my 1989 contribution. I quote Marx: "To be sold on the market as a commodity, work should in any case exist before. But if the worker could give to his work a material existence, separated and independent from his person, he would sell commodity, not work" (Marx, 1867, book 1, section 6, chapter 19). A little bit further, he added in a footnote: "If you call work a commodity, it is not like a commodity which is first made in order to be exchanged and then brought to the market (to be exchanged against other commodities). Work is created only when brought to the market. We can even say that work is

brought to the market before being created”. Thus “work” cannot exist as a commodity. What can only exist is the product of work. In other words what exists is the material and singular outcome of work activities of workers who coordinate their actions in the sphere of production towards a specific product. Note that we consider that services themselves have some material inscription somewhere (for instance in improvement or modification in the customer’s situation). Our concept of product is thus general; it a priori covers all industries.

Following Marx, work is not a substance which can be objectively measured. Can labour power be an adequate substitute for market exchange? Can it be measured? Symmetric difficulties arise, in relation with the second position assuming the existence of a market for labour power (or, if you prefer, for human capital). The relation between wage and productivity has been extensively discussed. What is striking is that opposite proposals are both supported with good arguments and some evidence. One proposal is that productivity is a positive function of the amount of human capital possessed by an individual who invested in it and receives higher wage (human capital being the neo-classical translation for labour power). In this view the hierarchy of wages must be explained by human capital differentiation. The opposite view is that higher wages is an incentive in favour of higher effort and productivity. In this conception the hierarchy of individual productivity is explained by wage differentiation: the apparent correlation between wage and human capital is a pure signalling effect. The idea is that, being uncertain on the quality of work, employers give provisionally some credit to diplomas and other general indicators of quality (which in reality have no relation with whatsoever substantial productivity).

Thus, if neither work, nor labour power could be the basis for market theory or for empirical evidence, the only way opened is to consider work hiring, work activities and labour adjustments in firms (and the complex unity the three are constituting) as a matter for coordination by conventions between workers and between workers and employers. That is, people at work have mutual expectations about the ways other people have to work and actually work; and them and the employer form mutual expectation about fairness and efficiency. A priori this statement is shocking; usually one’s speaks of constraints, power, unilateral authority, hierarchy. At the reverse, coordination and conventions speak of implicit agreements between people, emphasising something like this: that everybody prefers adhering to his own beliefs about the ways things seem going on, more than revealing the hard realities

to himself and to others, at least as long as nothing happens which explicitly contradicts his beliefs. Assuming that wage rules, classifications, standards are conventions simply means that the meaning and content of these rules are given by pragmatic interactions. They are accepted because they work: in that sense they are objective. But by the same process, they are in permanence submitted to interpretation and to innovation. Finally, these assumptions do not exclude that power relations and inequalities in bargaining power are at work in these interactions and that these relations and inequalities influence the definition of conventions. They simply mean that hegemony cannot be total and imposed uniquely unilaterally by strength relations. Hegemony is always a compromise between different worlds and principles. It takes the forms of rules and of objective descriptions which apparently manage a balance between interests and could be accepted as such.

2. Before providing more details, there is a major evidence in favour of a “conventional” treatment for work: the firm accountings and more largely its rules of organisation. Accounting qualifies the realities of the firm for its participants; it measures, it provides variables (wages, profitability, costs, prices, the number of employees, etc.) and ratios for managing the firm, for formulating claims, etc. More generally, the rules of organisation define tasks to be done, mobility, wage formula, promotion, lays off, etc. Are rules the true objective reality or, even if they can be sometimes contested, are they constructing a common reality for people living and working in the firm. Clearly the latter position is the right one. Everybody takes for granted this informed reality of the firm. Nevertheless it is a constructed reality. At a more fundamental level, it must be noticed that work has two different measures in firm accountings, both true: wage and added value. The wage is the counterpart for work effort (and an important daily issue about fairness). The added value measures the extent and quality of work incorporated in the final product. It could be argued that added value is the right evaluation of work and the true basis for labour claims. For the wage is only a share of the added value. Nevertheless due to the distribution of property rights in capitalism, most of the demands are about wages, not about value added. Wages appear as a cost and profit as the remuneration for the employer. Marx was aware of this double nature and fundamental ambiguity of salaried work. Workers conflict with the employer about the sharing of value added, and they cooperate with him to obtain a product which could be the support of higher value added. This is what means coordination for us, a inextricable mix of cooperation and conflict (for each worker and in the course of his work activities). Work conventions are

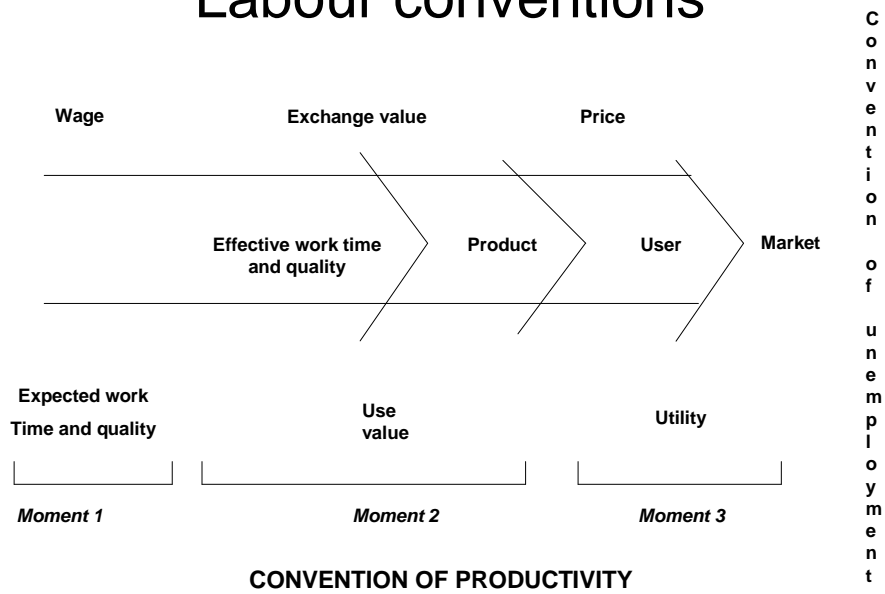
fundamentally marked by this ambiguity and this mixing. One's could say that conventions instrument for people at work a compromise between two principles of equivalence, the one making equivalent wage and work, the other making equivalence between work and its product. But some refinement is needed.

### 3. How to reassess these phenomena in the terms of an economics of conventions?

The work relation escapes to any market paradigm for two reasons. First, it occurs through time. Basically the relation is dynamic: the deliverance of work needs time, and a time posterior to exchange between the worker and the employer. Second, the true object of exchange is not work, but the (very material and singular) product of work. No partner is interested by work. What matters is the product. Only when the product is sold on its market, can profits and wages be obtained and remunerate employer and workers. But hiring has first to be achieved, for no work means no product and no value created. As the product does not exist when exchange occurs (and when the contract is signed), a substitute must be used at this exchange. Both reasons have as a consequence the radical uncertainty (about the future, the intentions of the other contractor, the quality and cost of the product) that governs the situation for its participants. Actors must cope with this uncertainty and find solutions to overcome it. Uncertainty is not ignorance; there are multiple ways for dealing with it.



# Labour conventions



For the actors of the work relation, uncertainty is overcome by two complementary conventions (or sets of conventions). The first one is the convention of productivity, the second one the convention distributing the responsibility vis-à-vis economic hazards (that I called convention of unemployment in my first works). In some way, the scheme 1 theoretically describes how uncertainty is endogenously structured by and within the work relation. It describes how the participants to the relation are expecting the things will move on and by the same way, if everything seems OK, it describes how things are actually moving on. There are three moments in the course of work coordination. They are connected each other both by expectations and, progressively, by individual actions. These moments are: hiring, the process of production and the acceptance of the product by market's buyers. At moment 1, wage is offered against future worktime and effort to come after. At moment 2, effort and quality of work are delivered and transformed, via coordination, into a final product. At moment 3, the product is tested by the market: is-it conform or not to buyers' expectations?

Moment 1 plus moment 2 are the domains for conventions of productivity. The first equivalence (wage against future time) is used to obtain the second one (work time against final product with expected standards of quality and costs). As I explained above, these conventions are supported by organisational rules. Moment 3 is the domain for conventions of unemployment. The quality of the product and, by the same way, the quality of the delivered work are market-tested. Some deviation can appear between expectations and achievement in these respects, even if standards of quality of work and of effort have been correctly achieved. Markets have changed their views. New standards of quality are required. Thus some adjustment is needed, that does not destabilise the conventions of productivity within the firm. The issues at stake are: who supports the adjustment? Is-it shared and, if so, along what distribution of responsibilities? Does-it concern wage, time of work, profit, the level of employment? As for conventions of productivity, there are diverse possible arrangements: work sharing, redundancies, lays off, retraining of the labour force, and so on, that are observable.

Conventions of productivity and of unemployment are closely and dynamically linked. The latter conventions rule distribution issues and the former ones efficiency problems. But at each stage of the process there are expectations about outcomes from the part of all participants.

Thus expectations about distribution play a role in work deliverance and its efficiency; reciprocally expectations about efficiency inform the chosen rules of distribution. So doing, one's disagrees with the standard view which considers that justice issues are purely distributive, social and opposed to economic issues. Fundamentally the link between efficiency and justice is positive and reciprocal; the very problem is that there exists different possible ways for constructing this link.

#### 4. Empirical examples

Further developments (see for instance Storper and Salais, 1997) focus on the key links between work and product of work. We distinguish several worlds of production, each being an ideal-type of product and of work coordination to achieve that ideal-typical product. Conventions of productivity and of unemployment differ from one world to the other. Empirical studies have been made, some using samples of individual firm data (accountings and qualitative description of their processes of modernisation); other studies focus on hiring processes, on monographs on industries or firms or territories or networks of firms, etc.

Other studies focus on the diverse ways by which law could be used as a resource in labour conflicts, the possibility to rely on arbitration procedures or on rights of action in front of a court of justice. And I would like not to forget historical researches we made, for France and, after, by comparison between France and Great-Britain (Whiteside and Salais, 1998) and with Germany, to seize unemployment as a convention, notably the statistical categories, the principles of public action for employment. National diversity on this respect is rooted in sets of different conventions and values. The statement that the rate of unemployment is lower in Great-Britain than in France must be carefully scrutinised. It is not so much that employment policies in Great-Britain are better than that the British tradition focuses on individual responsibility and market decentralisation. A long and important support to people searching employment would be counterproductive and would create social dependency. In trade or employer unions or in political parties, almost everybody considers that these are the right conventions, what everybody has to mutually expect from others. In France, the responsibility for the State, expected by all, is to create employment by macro policies and to provide support to people until they find a job. The conventions are different and, as a consequence,

the reality of unemployment itself. It is not a question of good or bad policies; each policy has its own criteria for evaluating fairness and efficiency.

This explains why it is difficult to predict what effective outcomes public policies could have. It is easy to make a prediction in purely normative terms by using models. But the reality will depend, partly at least, of the ways actors will interpret and react in context to that policy. Again one's must be aware that their conventions will play a role in the process of implementation. For instance, the creation of a minimum wage in Britain will have different effects, depending of the conventions that will dominate. If everybody or the dominant actors believe that the true competition is on costs and prices and that a compulsory minimum wage will put them in economic difficulties, job reductions will occur. But if there is an agreement that times now are to invest in human capital in order to be more productive and to compensate the lack of wage flexibility, the economy could create more jobs and more good jobs in new products and industries.

The whole set of studies tries to emphasise diversity, the openness and, to some extent, indeterminacy of the dynamics of development or of crisis. These studies pay attention to intermediary levels of coordination (industry, territory, network) as the relevant levels to study and to make public policies. More and more, these coordinations are transnational and are waiting for adequate public rules. This should precisely be a right concern for Europe. In studies we made on the implementation of a social dimension for Europe, we emphasise the crucial role of these intermediary levels (which transcend national frontiers) in elaborating fair social and employment standards. The mechanism of the European Social Dialogue is interesting in this respect. Roughly speaking, this mechanism creates incentives for social actors (unions and employers' organisations at European level) to deliberate about the adequate norms that meet both requirements of flexibility and workers' needs for freedom and thus can be the basis for European social law. Our approach helps understanding that the point at stake is not "soft law" – that is a law negotiated a minima between private interests. It concerns the discovering of the right way to implement and to make operative the European objective of, for instance, "to improve living and working conditions" (Article 136 of the Amsterdam Treaty). The basic premise of this mechanism is that, by their actions and their conventions of coordination, economic and social actors possess the practical knowledge

required for dealing with these norms. This constitutes a focal point for economic and law researches.

### **III. Proximity with and difference from other approaches**

With institutional economics (for instance internal markets or labour segmentation), the convention approach shares the same focus on organisational rules and on their distribution effects (hierarchies of wages, stability or precariousness of work relations). But it is less immediately institutional, if I could say. Primacy is given to action and to coordination. We try to leave room for some space for freedom, initiative, unpredictable bifurcation in dynamic and collective processes (for example, via the possible diverse interpretations people can do for the same conventions). For us institutions are needed and acting only in case of coordination failures, that are explicitly acknowledged and advocated as such by actors. And we pay more attention to the plurality.

With extended standard economics, we share, to some extent only, similar preoccupation about individual action and about forms of agreement. But we completely disagree on rationality and the role of the collective.

With regulation theories, we emphasise the role of labour, and, by contrast, the importance of property rights. And equally we pay attention to state action and public policies. But macro holism or optimal models are not our affair, as I insisted above. It is preferable to keep some unstable balance between what must be considered as inescapable tensions or contradictions (that are the salt of life and of economy). Researchers have not to propose solutions or ideologies. They simply have to be part of a collective process of reflexivity, of knowledge, and more generally to be part of a process of pragmatic revision of institutions which govern the economy. Vis-à-vis social and public actors, their role could be to make visible and publicly debatable what are the implications or the principles of public action, the coherence or incoherence, or the categories that implicitly underline their action or proposals.

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